

Approved For Release 2002/03/20 : CIA-RDP78-03089R000100030019-2

Approved For Release 2002/03/20 : CIA-RDP78-03089R000100030019-2

Gentlemen:

With the permission and encouragement of the DD/S, I am submitting a specific proposal to you today for your consideration. It is a proposal that I think would contribute significantly to the CIA personnel program and make CIA a leader among government departments and agencies.

My specific proposal is shown on the first page of your "handout."

Each of you has received previously a copy of an analysis I have made of the Tennessee Valley Authority "Take Stock Plan." This Take Stock Plan is the basic inspiration for my proposal. To my knowledge, TVA, through this plan, is the first and only instrument of the Federal government to use a "Qualified Pension Trust" to assist its employees to save and invest personal funds without income tax dilution for their eventual retirement. It is also the first to foster, if not encourage, the investment of such funds in common stocks and other equity securities.

The law of the land provides a tax shelter for limited investment of retirement funds. Private industry and self-employed persons make extensive use of these provisions in retirement planning, so why should not the CIA take the lead in government?

- 2 -

The basic reasons why I think CIA would be justified in incurring the expense and difficulty of operating a voluntary employee retirement savings and investment plan are enumerated in my paper on TVA activities in this field. I overlooked or underrated the simple reason that the opportunity to do something outstandingly constructive for the benefit of our employees is too great to ignore.

Purposely omitted from your copies of my analysis of the TVA Take Stock Plan are several exhibits which demonstrate the efficacy of investing personal savings for retirement in common stocks through a tax exempt mechanism.

To fully understand these exhibits, it is necessary that I give you a brief description of the total TVA retirement program and its historical evolution.

The TVA normal retirement benefits consist of the following:

- a. Social Security
- b. A pension based on TVA contributions (approximately 6.45% of current payroll) to a pension fund. Pensions are based on years of service and average salary.
- c. An annuity based on mandatory employer contributions at 6% of salary (less social security taxes) to a separate annuity fund.

The combination of all three of these retirement benefit programs roughly equates to Civil Service Retirement.

- 3 -

Originally the annuity portion of this package provided the retired employee with a fixed monthly payment for life determined actuarially by the amount of money the individual would contribute during his working career and presuming compounded interest at a fixed rate. Initially the rate was 4%, reduced to 3% for new employees during the cheap money depression years, and currently 4% for all employees.

In 1959, however, employees were given the new option of having all or part of their annuity contributions invested in a separate fund which would be invested in common stocks and high yield securities. To the extent this fund appreciated more than 4% per year compounded, eventual annuities would be larger. In the event the fund appreciated at less than 4%, annuities would necessarily be less. In brief, the employee could elect to seek a substantially larger annuity by accepting the risks of receiving a variable annuity.

Are there any questions?

Now for the results - in view of the growth of our national economy and the inflation that has occurred, you will not be surprised. The second page of the handout gives the latest story.

Look first at the box in the lower right-hand corner and the starting date of January 1959. If an individual's contributions had been invested in the fixed 4% fund, contributions of \$100 per month during the past ten years would have grown to \$11,700. The same amount invested in the variable fund would have grown to \$19,892.

- 4 -

Let me caution you not to be misled by the dollar figures. \$20 to \$50 per month is more realistic than \$100. The important thing is the percentage of growth. In lieu of a fixed 4% growth, the factual record shows an average annual growth of 10.6% for the variable annuity fund. Those who entered this plan in later years have had even more phenomenal growth in their annuity fund. In any event, at the moment it appears that all participants can anticipate substantial increases in their ultimate variable annuity payments.

If you will turn for the moment to the next page, you can see the actual effect upon annuities of several persons who retired between 1959 and 1967 and who were participating in the variable annuity fund.

Case #1 is an employee who elected in 1959 to put his annuity contributions into the variable fund even though he was scheduled to retire four years later. His few years of contributions to the variable fund started him with an annuity of \$57.33. The same money in the fixed annuity fund would have brought \$52.47, almost as much. Yet another four years later, his annuity has increased to \$73.00 per month. This is an increase of 39%. During the same period, no increase has occurred in his TVA pension and increases in social security occur only if enacted by law.

Returning to the prior page, the tabulation in the lower left corner shows how the value of a unit share of the variable annuity has fluctuated with stock market trends. In 1960 and 1962 employees clearly had lost part of their retirement contributions. Nevertheless, the forces of a growing economy and inflation

- 5 -

inexorably show up and unless all generally accepted economic theory proves false, good equity investments will out perform investments in dollar instruments in the long run.

Initially only a small percentage of TVA employees put all or part of their annuity contributions in the variable annuity fund. Today 50% of them are not only doing so, but when permitted in 1966, some \$4, 000, 000 in prior contributions to the fixed fund was transferred to the variable fund.

It was the success and fevered acceptance of the variable annuity concept that led to the adoption of the supplemental optimal retirement savings and investment plan - Take Stock.

This plan was two years old in October 1968. The results are reflected in the top part of page two of the handout. In Take Stock, the employee savings are invested exclusively in common stocks and other equity securities through the mechanism of two load mutual funds. The Fidelity Trend Fund seeks capital growth in its common stock acquisitions. The Puritan Fund primarily emphasizes high investment dividends.

In this connection, it is extremely interesting and important to note that the more conservative, high income fund - the Puritan Fund - has appreciated more than the more speculative Fidelity Trend Fund. It is even more important to note that the conservative variable annuity fund which is managed by the First National City Bank of New York has a yearly average growth rate in excess of either of the two mutual funds. The time spans are, of course, very different and direct comparison would be ill advised.

- 6 -

This brings me to the last point of my discussion.

The selection of the investment media is clearly of utmost importance. The TVA selection of two mutual funds having the common goal of high growth but by differing investment philosophies permits employees to invest under either or both philosophies. A unique feature of selecting two funds under the same management is that it permits employees to transfer their funds without any penalty from one fund to the other depending upon their personal appraisal of future economic trends.

In any event, the selection of investment media, be they "load" mutual funds, "no load" funds, open or closed end investment companies such as Lehman Brothers, Tri Continental Corporation, trust companies or investment bankers, must be a matter of primary concern to CIA and a matter over which CIA must retain ultimate control. As the materials given you indicate, the TVA has such control.

I am open for questions.